

PERSPECTIVES

Three Reasons Why Dimensional SMAs Are Worth Your Attention

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Two and a half years after launching its low-minimum separately managed account (SMA) offering, Dimensional manages over \$2 billion across more than 700 accounts,¹ having doubled both the assets and accounts under management in 2023. Here is why we believe many financial advisors have started using our SMAs and why you might also consider them.

1. THE VALUE-ADDED INVESTMENT APPROACH

When Dimensional launched its low-minimum SMA offering, a key motivation was helping advisors do better than so-called “direct indexing” products, which dominated the SMA landscape. Unlike direct indexing, Dimensional SMAs do not start with an outsourced index, like the S&P 500. Our core equity SMAs start with a thoughtfully designed and broadly diversified investment universe that allows for tax-efficient implementation. Within that universe, Dimensional SMAs emphasize companies with higher expected returns through a daily, flexible investment process, avoiding the rigidities and potential inefficiencies of an index approach. For example, we systematically use the proceeds from harvesting losses to buy stocks with higher expected returns, rather than to minimize tracking error by trying to ensure our holdings precisely match an index’s.

And this leads us to another crucial difference from direct indexing—Dimensional SMAs are not distracted by the tradeoff between managing taxes and minimizing tracking error against an outsourced index. Instead, they focus on the tradeoff that we believe really matters: between taxes and expected return premiums.² So a Dimensional SMA might completely sell out of a name if this can lock in large capital losses without negatively impacting the expected return of the portfolio. A direct indexing product might not be able to do this if that name has a large index weight.

2. THE MULTIFACETED TAX MANAGEMENT

Many SMA offerings out there are all about tax loss harvesting. But that is only one way to add value in a tax-managed SMA. Dimensional SMAs apply multifaceted tax management³ that seeks not only to systematically harvest meaningful losses but also to minimize and defer capital gains when rebalancing toward higher expected returns. Our tax management approach can also help investors maximize the qualified portion of dividend income and manage wash sales within and across linked accounts. Dimensional SMAs can also proactively alert for gifting opportunities around corporate actions.

3. THE CLIENT SERVICE

SMA's allow advisors to offer personalized investment solutions. Yet personalization requires time and effort to design, launch, and manage each client account. Dimensional offers an intuitive and easy-to-use SMA portal and hands-on support through our SMA Solutions team. This dedicated team of specialists can walk you through the results of a complex tax transition analysis or periodic portfolio performance reviews. The team supports advisors setting up SMA custody accounts for the first time and initiating bulk conversions from other managers. SMA Solutions can also describe options available to you if your client wants to harvest gains or additional losses, apply a new security restriction, raise cash, or add Dimensional ETFs to the portfolio. What is the typical response time for a service request? Fifteen minutes. As with everything else we do at Dimensional, we strive to provide a truly outstanding advisor experience.

In addition to the above, in January 2023, we added the ability to include Dimensional ETF positions in the account target asset allocation for most Dimensional SMA's.⁴ This essentially transformed our SMA's into UMAs (unified managed accounts). We believe there are several benefits of integrating ETFs alongside direct security holdings in one account, including holistic tax management across the overall portfolio, greater asset class flexibility in portfolio construction, and enhanced operational efficiency for the advisor. We continue to innovate to provide an SMA platform designed for easy integration into an advisor's business and a high level of personalization for investors.

1. As of January 11, 2024.

2. Within equities, for instance, numerous studies using data that cover over 40 countries and span close to a century show that several variables, including size, relative price, and profitability, contain reliable information about the cross-section of expected stock returns. Equity portfolios can use the information in these variables to systematically target higher expected returns.

3. Certain UMA account types such as IRAs, solo 401(k)s, and other non-ERISA tax-advantaged accounts may only select no tax management when choosing a tax management approach.

4. Excludes any Dimensional SMA set up as an IRA.

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Tax Management Disclosure: Dimensional may be directed to manage separate accounts in a predetermined tax sensitive manner by utilizing certain measures including, but not limited to, tax loss harvesting, seeking to minimize short-term capital gains, maximizing the qualified portion of dividend income, applying a tax-efficient lot selection methodology, and considering tradeoffs among premiums, costs, diversification, wash sale rules, and capital gains in daily portfolio management. Additionally, certain events (including, but not limited to,

client requests to update custodians, strategies, or client-directed restrictions; ongoing client activities like contributions, redemptions, and gifts; incorrect custodian account settings; and advisor direction) may limit Dimensional's ability to engage in tax loss harvesting and to evaluate the tradeoffs outlined above. While Dimensional will regularly monitor accounts for tax loss harvesting opportunities, Dimensional might not engage in daily tax loss harvesting. For accounts that select light tax management, Dimensional will seek to reduce highly overweight positions if there are losses available to offset any potential gains. If losses are not available, Dimensional may not sell down the overweight positions unless directed.

Dimensional will generally seek to limit potential wash sales in all accounts. "Wash sales" relate to a tax regulation that seeks to prevent investors from selling securities at a loss and then repurchasing the same or a substantially identical security in a span of 30 days before or after the sale. Dimensional may be unable to avoid wash sales or other tax consequences, particularly around client cash flows, corporate actions, or when clients hold substantially identical securities in accounts that are not managed by Dimensional or in accounts that are not linked to the separate accounts Dimensional manages (external accounts). Certain UMA account types such as IRAs, solo 401(k)s, and other non-ERISA tax-advantaged accounts may only select no tax management when choosing a tax management approach.

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